

SCOTTISH BORDERS COUNCIL

PENSION FUND COMMITTEE AND PENSION BOARD

MINUTES of Meeting of the PENSION FUND
COMMITTEE AND PENSION BOARD held
in To be advised on Friday, 11 December
2020 at 10.00 am

Present:-	Councillors D Parker (Chair – para 1 - 6), S Aitchison, J Brown, G Edgar, D Moffat, S Mountford (Chair - para 7 -), Mr D Bell, Mr M Drysdale, Mr M Everett (part) Ms K Hughes, Ms H Robertson and Ms L Ross
Apologies:-	Councillor S Scott.
In Attendance:	Executive Director Finance & Regulatory, Pensions and Investment Manager, HR Shared Services Manager, Chief Officer Audit & Risk. Democratic Services Officer (J Turnbull).
Also in Attendance:	Mrs J West, Hyman Robertson, Mr A O'Hara and Mr A Singh, Isio.

1. 2020 VALUATION: WHOLE FUND RESULTS

- 1.1 The Chairman welcomed Mrs Julie West, Actuary from Hymans Robertson who was in attendance to give a presentation on the Pension Fund's formal valuation results. Mrs West began her presentation by explaining that the aim of the valuation was to find the balance between employer contributions and investment returns to ensure funding was in place to cover payment of future benefits to members. The Actuary determined the valuation by placing a value on all the benefits earned to date by all members, including those that had left, deferred members and active members and comparing with the Fund's assets. The Actuary also had to try to understand future risk when setting contribution rates and that rates were stable to ensure the long term sustainability of the Pension Fund. Referring to the graphs in the presentation slides, Mrs West explained the likelihood of achieving the assumed future investment return. In discussion with officers they had determined that the likelihood of being fully funded should be set at 70%. The key assumptions in determining the 70% likelihood was: investment returns decreasing, salary increases and benefit increases. The demographic assumption also influenced when benefits were paid and for how long. The most influential of which was life expectancy. Hymans Robertson were able to drill down to local level to set a life expectancy based on the trends shown for specific areas. Since the last valuation on 31 March 2017: inflation had dropped, demographic assumptions had changed, adopting VitaCurves longevity assumption and changes in financial assumptions, such as future investment returns. This had resulted in a decrease in the Fund surplus from £81m to £63m.
- 1.2 Mrs West went on to discuss uncertainties considered when determining their valuation. The McCloud judgement, ruled protection for those within 10 years of retirement at 31 March 2012. The true costs of this would not be known until all potentially affected members had retired. This judgement would be a significant burden for the administration of the Fund. The Actuary's valuation had made an allowance for the McCloud judgement. The Cost Cap Valuation meant that if the cost of the scheme decreased, future benefits earned would need to increase to the original cost assessed for the scheme. The Actuary's valuation had not made an allowance for Cost Cap.
- 1.3 Mrs West then explained that the Actuary determined a funding level by considering different future scenarios. She highlighted three scenarios which were all in excess of

70%. However, with the potential of Cost Cap the decision reached with officers, was for contributions to stay at the same level for two years and then increase by ½% in the third year. This would give a protection against future uncertainties. The next steps in the valuation process was continuing the work of setting contribution rates for the remaining employers in the Fund and also revising the Funding Strategy Statement. The final valuation would be completed by 31 March 2021.

- 1.4 In response to questions, Mrs West advised that the Goodwin judgement had not been published but it was likely to be more of an administration challenge. As it only affected a small number of individuals it was not anticipated to have a significant impact on liabilities. Regarding the 1/2% increase in year three, this was to manage future uncertainty and protect the Fund. The Chairman thanked Mrs West for her attendance and comprehensive, clear presentation.

DECISION

NOTED the presentation.

2. MINUTES

There had been circulated copies of the Minutes of the Meetings of 24 September 2020 and 26 November 2020.

DECISION

NOTED for signature by the Chairman the Minute of the Meeting held on 24 September 2020 and the Minute of the Special Meeting held on 26 November 2020.

3. PENSION FUND INVESTMENT AND PERFORMANCE SUB-COMMITTEE

There had been circulated copies of the Minute of the Pension Fund Investment and Performance Sub-Committee held on 29 September 2020

DECISION

NOTED.

4. RISK REGISTER UPDATE

With reference to paragraph 5 of the Minute of 24 September, there had been circulated copies of a report by the Executive Director Finance and Regulatory. The report formed part of the risk review requirements of the Pension Fund Committee and Pension Board with an update on progress of the actions taken my management to mitigate risks and highlighted changes to any of the risks contained in the Risk Register. Identifying and managing risk was a corner stone of effective management and was required under the Council's Risk Management Policy and process guide and CIPFA's guidance "Delivering Governance in Local Government Framework 2007". It was further reflected and enhanced in the "Local Government Pension Scheme" published by CIPFA. A full risk review was undertaken on 15 May 2020 and the revised Risk Register approved by the joint Pension Fund Committee and Pension Board on 22 June 2020, with an update of the action undertaken on 24 September 2020. Appendix 1 to the report detailed the risks within the approved Risk Register which had identified management actions and the progress of these actions to date.

DECISION

- a) **NOTED:**
- (i) the management actions progress as contained in Appendix 1, to the report; and
 - (ii) no new quantifiable risks had been identified since the last review.
- b) **AGREED to a key risk review being undertaken in March 2021 and a report on progress on risk management actions.**

5. BUSINESS PLAN PERFORMANCE UPDATE

There had been circulated copies of a report by Executive Director Finance and Regulatory providing and update on delivery of actions within the approved Business Plan. The 2020/21 – 2022/23 Business Plan for the Pension Fund was approved by the Committee and Board on 22 June 2020. Included within the Plan were key objectives and actions with target dates. A summary of the progress of the actions was included in Appendix 1 to the report. As part of the risk register update, approved on 24 September, it was agreed that a mid-year progress report on Business Plan actions would be presented to members at the December 2020 meeting and a further progress report and update at the June 2021 meeting. The report explained that there were 25 key tasks due for completion during 2020/21. Of these, 11 were fully completed, seven were on track to be completed by the approved target date and seven required revised target dates as detailed below. Mrs Robb confirmed that all legislative requirements had been met and explained that staff resource constraints and the impact of Covid-19 were the reasons for the revised target dates.

DECISION

- (a) NOTED the progress of the 2020/21 actions within the business plan;**
- (b) AGREED:**
 - (i) the revised target date of 31 March 2021 for completion of the Triennial valuation;**
 - (ii) the revised target date of 31 March 2021 for completion of the Cessation and Discretion policy which will be included in the Funding Strategy Statement;**
 - (iii) the revised target date of 30 June 2021 for the review of admission agreements;**
 - (iv) the revised target date of 30 June 2021 for the review of employer guarantees;**
 - (v) the revised target date of 31 March 2021 for the implementation of i-Connect;**
 - (vi) the revised target date of 30 June 2021 for the review of the Stewardship Code; and**
 - (vii) the revised target date of 31 March 2021 for the procurement of Investment Advisor.**

6. PENSION FUND BUDGET MONITORING

With reference to paragraph 8 of the Minute of 24 September 2020 there had been circulated copies of a report by Executive Director Finance and Regulatory providing an update on the Pension Fund budget to 30 September 2020 including projections to 31 March 2021. The Local Government Pension Scheme (Scotland) Regulation 2014 required Administering Authorities to ensure strong governance arrangements and sets out the standards that were to be measured against. To ensure the Fund met the standards a budget was approved on 10 March 2020 following the recommendations within the CIPFA accounting guidelines headings. This report was the second quarterly monitoring report of the approved budgets. The total expenditure to 30 September 2020 was £0.314m with a projected total expenditure of £6.906m against a budget of £6.901m. This projected a budget variance of £5k which represented the commissioned work to undertake the Funding Strategy Statement. The Committee congratulated the Pensions Team on keeping the budget on target during this difficult time.

DECISION

- (a) NOTED the actual expenditure to 30 September 2020.**

(b) AGREED the projected out-turn as the revised budget.

MEMBER

Councillor Parker left the meeting following consideration of the above report. Councillor Mountford in the Chair.

7. INVESTMENT TAXATION REVIEW

There had been circulated copies of a report by the Executive Director Finance and Regulatory updating the Committee and Board on the findings of a review undertaken by KPMG on the reclaiming of taxation on the Fund's overseas investments. This review was approved as part of the agreed Business Plan to ensure the Fund was as tax efficient as possible. The report explained that the income generated by these investments could be subject to Withholding Tax (WHT) in the country of origin. The WHT was deducted at different rates depending on the tax regime in the country where the investment was held. This withheld tax could be reclaimed under certain circumstances. To ensure the performance of investments was maximised the Fund needed to ensure it reclaimed as much WHT as possible. KMPG were commissioned to undertake the review which was broken down into three parts. Review of the performance of Northern Trust as the Fund's custodian for the segregated funds. Review of the infrastructure investments made in collaboration with Lothian Pension Fund and a review of investments in pooled funds. The review of the performance of Northern Trust for the segregated funds highlighted a small number of differences in rates reclaimed, which have now been addressed. The review of the infrastructure investments made in collaboration with Lothian Pension Fund highlighted one investment which had triggered a US filing obligation. The costs and requirements of this was currently under fuller investigation but might result in additional costs for the Fund. The review of the pooled funds held confirmed all funds were tax efficient. Mrs Robb advised that since publishing the report KPMG advised that no final obligation was required for any of the funds held and therefore 5.1(b) on the report was no longer relevant.

DECISION

(a) NOTED the outcome of the taxation review.

(b) APPROVED, when appropriate, the filing of any required USA tax documents with the assistance of KMPG.

8. INFORMATION UPDATE

8.1 There had been circulated copies of a briefing paper by Executive Director Finance and Regulatory providing an update on a number of areas which were being monitored and where work was progressing. Full reports on individual actions would be tabled as decisions and actions were required. In summary:-

8.2 Data Quality

Mr Angus explained that the Common Data results would never meet all the requirements of the Pension Regulator. For example, some oversea addresses had no postcode and there were no NI numbers for children under 16 years of age. An update would be provided at the next meeting on any rectification work required.

8.3 McCloud Consultation

Officers from all Scottish LGPS Funds had submitted a combined response to the McCloud consultation, a copy of which was attached to the briefing paper. Mr Angus highlighted the significant complexity the judgement would have for the administration of the Scheme and also concern that the software supplier would be able to meet the timeline. A further update would be provided following conclusion of the consultation.

8.4 AVC Update

Mr Angus advised that there had been a further increase of 18 employees participating in the Shared Cost AVC Scheme. The Scheme was promoted through the intranet, Fund website and SB Scene.

8.5 Scheme Advisory Board

The Appendix to the briefing paper contained the bulletin from the SAB meeting held on 16 September. It was noted that a full response was submitted on 27 November following the Pension Fund Special meeting on 26 November. The Chairman advised that at the meeting on 9 December it was considered that the paper lacked clarity and specific information on the brief for tender and governance was required. The joint secretaries were asked to prepare a new report for consideration at a special meeting to be held in January 2021. The procurement exercise would be in two stages: a brief for the four different options, followed by an analysis of the information and reporting back to the SAB.

8.6 Training Opportunities

Mrs Robb gave an update on recent training events. The annual PLSA Investment Conference on 9th to 11 March would be a virtual event. Once further information was available she would circulate. To date six Pension Fund Committee members and seven Pension Board members had completed the minimum training requirements. Any member who had not completed the requirement would be notified.

8.7 Future Meetings

Joint Pension Fund Committee and Pension Board – Thursday, 4 March 2021 and Thursday 10 June 2021. Pension Fund Investment Performance Sub Committee – Tuesday, 16 February 2021 and Tuesday, 29 June 2021.

DECISION

NOTED the briefing paper.

9. PRIVATE BUSINESS

AGREED under Section 50A(4) of the Local Government (Scotland) Act 1973 to excluded the public from the meeting during consideration of the business contained in the following items on the grounds that they involved the likely disclosure of exempt information as defined in paragraph 6 and 8 of Part 1 of Schedule 7A to the Act.

10. MINUTES

The Committee noted the Private Minute of the meetings of 24 September and 26 November 2020.

11. PENSION FUND INVESTMENT AND PERFORMANCE SUB-COMMITTEE

The Committee noted the Private Minute of the Pension Fund Investment and Performance Sub-Committee of 29 September 2020.

12. QUARTER PERFORMANCE UPDATE

The Committee and Board considered a private report by Isio.

MEMBER

Councillor Parker re-joined the meeting during consideration of the above report.

The meeting concluded at 11.45 am